

Message Text

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51

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 NSCE-00 SP-03 AID-20

NSC-07 RSC-01 CIEP-03 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15

DRC-01 /180 W

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R 201154Z SEP 74

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC 4404

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L THE HAGUE 4655

PASS WHITE HOUSE FOR WILLIAM SIEDMAN

E.O. 11652: GDS

TAGS: EFIN, NL

SUBJECT: DUISENBERG ON INFLATION CONTROL

REF: (A) HAGUE 4527, (B) STATE 206123

1. AS FORESEEN IN PARA 3 OF REFTEL (A) I MET AGAIN WITH

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MIN FIN DUISENBERG OVER LUNCHEON SEPT 19 TOGETHER WITH

ECON COUNSELOR AND ASKED MINISTER TO EXPAND ON HIS EARLIER COMMENTS CONCERNING US COUNTERINFLATIONARY POLICY.

2. AFTER BRIEFLY SUMMARIZING HIS BASIC POSITION AS OUT-LINED REFTEL (A) (I.E. THAT CURRENT US INFLATION IS COST-PUSH RATHER THAN DEMAND-PULL AND THAT AUSTERE FISCAL POLICY IS NOT THE ANSWER) DUISENBERG WENT ON TO SAY THAT HE DOES NOT BELIEVE THAT TIGHT MONEY AND RESTRAINT OF GOV EXPENDITURES ARE THE RIGHT MEDICINE FOR THE PARTICULAR AILMENTS CAUSING INFLATION TODAY. HE CONCLUDES THAT THOSE COUNTRIES WHICH HE CONSIDERS IN A POSITION TO DO SO--I.E. US, FRG, CANADA, NETHS AND BELGIUM--OPT FOR MODERATELY EXPANSIONARY BUDGET POSSIBLY LINKED TO VOLUNTARY WAGE AND PRICE RESTRAINT. IN HIS VIEW FISCAL AUSTERITY IS NOT EFFECTIVE IN COMBATING NEW WORLD WIDE PSYCHOLOGICAL ACCOMMODATION TO CONTINUED INFLATION AT RISING RATES AND THAT REFLATION WOULD AT LEAST HELP TO REVIVE INVESTMENT GROWTH. HE RECOGNIZES THAT FOR US THIS POLICY WOULD REQUIRE BETTER UNDERSTANDING BETWEEN WHITE HOUSE AND ORGANIZED LABOR SO THAT INCREASED LIQUIDITY WOULD GO INTO PRODUCTION RATHER THAN CONSUMER DEMAND.

3. ON MONETARY SIDE DUISENBERG SAID THAT WHILE HIGH INTEREST RATES WERE A SIGNIFICANT FACTOR CONTRIBUTING TO COST-PUSH INFLATION HE WOULD COUNSEL SOME CARE AND RESTRAINT IN BRINGING INTEREST RATES DOWN IN ORDER TO AVOID TRIGGERING NEW INFLATIONARY PRESSURES.

4. COMMENT: FOREGOING FORMULA IS CONSONANT WITH DUISENBERG'S OWN APPROACH TO UNEMPLOYMENT IN NETHERLANDS AS REFLECTED IN CY 1975 BUDGET DELIVERED HERE SEPT 17 (HAGUE 4604) WHICH IS MODERATELY EXPANSIONARY AND WHICH SEEKS TO DAMPEN PRESSURES FOR UNDUE WAGE INCREASE BY GIVING TAX RELIEF TO BLUE COLLAR CLASS.

5. IN EVALUATING DUISENBERG'S COMMENTS ON US ECONOMIC SITUATION IT IS WORTH RECALLING THAT HE IS AN ACCOMPLISHED PROFESSIONAL ECONOMIST, HIGHLY RESPECTED BY HIS COLLEAGUES HERE REGARDLESS OF THEIR POLITICAL PERSUASION AND WITH THREE YEARS OF EXPERIENCE IN IMF WASHINGTON IN THE MID-SIXTIES. WE HAVE FOUND HIM A STRONG, HARD-WORKING AND ATTRACTIVE

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MINISTER, POLITICALLY SUREFOOTED BUT SOMEWHAT ALOOF FROM PARTY INFIGHTING (HE DESCRIBES HIMSELF AS RIGHT-OF-CENTER SOCIALIST), AND WITH NO ANTI-US HANG-UPS. HE IS A REAL COMER ON THE DUTCH SCENE AND A LOGICAL CANDIDATE FOR THE "DUTCH MAFIA" WHICH NOW LEADS SO MANY INTERNATIONAL AGENCIES (IMF, NATO, OECD, FAO, BIS). I THEREFORE BELIEVE HIS VIEWS MERIT SERIOUS CONSIDERATION BY US OFFICIALS.

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